IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

ROBERT E. GILSON, M.D.,
WISCONSIN ALUMNI RESEARCH
FOUNDATION, GILSON INC.,
and GILSON S.A.S.

Plaintiffs,

MEMORANDUM AND ORDER
04-C-852-S

v.

RAININ INSTRUMENT, LLC, RAININ
GROUP, INC., and METTLER-TOLEDO,
INC.,

Defendants.

Plaintiffs Robert E. Gilson, M.D., the Wisconsin Alumni Research Foundation, and Gilson Inc. commenced this civil action against defendants Rainin Instrument, LLC, Rainin Group, Inc., and Mettler-Toledo, Inc. alleging breach of contract, violation of Wis. Stat. § 100.18, unfair competition in violation of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) & (B), and seeking a declaration that the parties' exclusive distributorship agreement is void and unenforceable. Jurisdiction is based on 28 U.S.C. §§ 1331 and 1332. The matter is presently before the Court on defendants' motion for judgment on the pleadings and cross-motions for summary judgment. The following facts are undisputed.

BACKGROUND

Pipettes are hand-held instruments that are typically used in laboratories to measure and transfer liquids. Pipettes are used to extract a precise volume of liquid from one container and then transfer and deposit it into another. A pipette's shape is similar to that of a large syringe, but pipettes are much more precise and durable.

Plaintiff Dr. Robert E. Gilson is a Wisconsin citizen. He and his father Dr. Warren E. Gilson are the named co-inventors on U.S. Patent No. 3,827,305, which issued on August 6, 1974 for certain adjustable volume manual pipettes. Plaintiff Gilson Inc. is a Wisconsin corporation with its principal place of business in Middleton, Wisconsin. Plaintiff Gilson S.A.S. is a French corporation with its principal business in France. Gilson S.A.S. is a wholly-owned subsidiary of Gilson Inc. Gilson Inc., directly and through its affiliate Gilson S.A.S., is a leading manufacturer of high-quality pipettes, liquid chromatography instruments and automated liquid handling instruments. Plaintiff Wisconsin Alumni Research Foundation (WARF) is a Wisconsin nonstock corporation with its principal place of business in Madison, Wisconsin. WARF is the successor to Dr. Warren Gilson's rights with respect to the present dispute.

Defendant Mettler-Toledo, Inc. is a Delaware corporation with its principal place of business in Ohio. Mettler sells pipettes, analytical instruments and products for laboratory and industrial weighing, automated chemistry, packaging control and other similar purposes. Defendant Rainin Instrument, LLC is a single-member limited liability company owned by Mettler. Rainin LLC is a successor to defendant Rainin Instrument, Inc. n/k/a Rainin Group, Inc., a Massachusetts corporation with its principal place of business in California. Rainin Inc. was in the business of selling pipettes and other products for laboratory use. Rainin LLC took over this business after Mettler acquired Rainin Inc.

In December 1972 Warren and Robert Gilson entered into a "Capital Gains License Agreement" with Rainin Instrument Co., Inc. Under this 1972 Agreement, the Gilsons granted Rainin the exclusive right in the United States to use the method described in the '305 patent and technical information relating to processes, invention and methods relating to the manufacture of pipettes under the patent, including "the exclusive and perpetual right to make, use and sell under the aforesaid technical information and patent application." Rainin agreed to pay the Gilsons a royalty for every pipette covered by the licensing agreement that it sold. The 1972 Agreement set this royalty at $8.00 per pipette. The parties later agreed to increase the royalty to $8.50 per pipette, where it remains today. Since 1975 Rainin has paid a total of $15,736,882 in royalties to plaintiffs. Since 1972 Gilson Inc., through its affiliate Gilson S.A.S., has manufactured Gilson "Pipetman" pipettes, which Rainin has marketed and sold throughout the United States. As a result of the parties' relationship, the Gilson Pipetman pipette quickly became the largest selling pipette in the

United States. Known for its reliability and durability, it became the industry standard. It remains so today.

The '305 patent expired in 1991. In 2001 Mettler acquired Rainin Inc. and entered into an agreement with plaintiffs to assign Rainin Inc.'s rights under the 1972 Agreement to Mettler. This 2001 Assignment Agreement is prefaced by the following recital: "The parties have further engaged in discussions and negotiations concerning the [1972] Agreement, and have agreed on certain interpretations of the [1972] Agreement, as follows." The 2001 Agreement includes the following relevant provision:

> 3. Term
> The parties confirm that the term of the [1972] Agreement with respect to Current Pipetman Products shall be in perpetuity. "Current Pipetman Products" means products being manufactured by Gilson France and distributed in the U.S. by Rainin as of the date of this Agreement. The term of the exclusive rights under the [1972] Agreement with respect to "Pipetman Ultra" products, other "Pipetman" line products developed in the future, "Pipetman" products which reflect a change from Current Pipetman Products, and all other current and future volume adjustable mechanical pipettes covered by Section 2 hereof shall be fifteen (15) years from and after the date of this Agreement, and thereafter shall be nonexclusive. Nothing herein shall be construed as requiring the Gilsons to supply any particular PRODUCT to Mettler after termination of the exclusive period with respect to such PRODUCT.
>
> Provided that Mettler remains the exclusive distributor of all Gilson volume adjustable mechanical pipettes, if annual sales of PRODUCTS by Mettler in the U.S. in any calendar year are less than one half the unit sales of Current Pipetman Products in calendar year 2000, then the Gilsons shall have the right by written notice to Mettler to convert Mettler's rights under the [1972 Agreement] from exclusive to nonexclusive; provided, however, that such exclusivity shall not lapse in the

> event such volume limitations are not achieved as a result of significant quality problems, Acts of God, significant logistical problems, or similar events causing a significant disruption in supply.
>
> The parties agree to enter into good faith negotiations regarding the extension of the exclusive term of the [1972] Agreement for additional 1-year periods. If the Gilsons do not desire to extend the exclusive term, they shall so advise Mettler in writing at least 1 year before the expiration of the exclusive term. Notwithstanding such notice of intention not to extend the exclusive term, the 1972 Agreement will remain in effect as provided herein and for the balance of the exclusive term Mettler will continue to carry and market PRODUCTS in accordance with its past practices.

In 2000 Rainin sold 86,892 Pipetman pipettes. Consequently, the agreement's reference to "one half the unit sales of Current Pipetman Products in calendar year 2000" equals 43,336 pipettes.

By a separate 2001 agreement, Gilson Inc. gave Mettler a 15-year exclusive license to use the "Gilson" trademark in the United States with respect to certain pipettes supplied by Gilson. Thereafter the agreement provides that "[i]f Mettler undertakes the manufacture of products and desires to use trademarks of Gilson, Inc. in connection therewith, then the parties will enter into good faith negotiations for a license agreement authorizing Mettler to use said trademarks."

The parties agree that while the two 2001 Agreements modified the 1972 Agreement in several respects, they still required defendants, through Mettler's affiliate Rainin LLC, to serve as the exclusive distributor of certain Gilson pipette products in the United States. The parties also agree that the per-pipette royalty promised by defendants to the plaintiffs is the only compensation promised to them by defendants under the agreements. Further, the parties agree that defendants are not obliged to make minimum royalty payments to plaintiffs. Plaintiffs' only recourse if defendants fail to meet the minimum sales figure specified in the 2001 Assignment Agreement is to give notice and convert defendants' right to distribute Gilson pipettes from exclusive to nonexclusive.

Defendants have manufactured and sold their own electronic pipette since 1984. In 1998 they began to manufacture and sell their own "Pipet-Lite" manual pipette. From 1998 through 2000, plaintiffs noticed no appreciable decline in sales of Gilson Pipetman products in the United States. After 2001, however, sales of Gilson products in the United States began to decline significantly. Defendants sold 86,252 Pipetman pipettes in 1999. In 2004 defendants sold 30,000 fewer Pipetman pipettes. In 2004 defendants sold about 30,000 of their own pipettes in the United States. This represented about a 25% gain in market share for Rainin pipettes. A relatively small number of the Rainin pipettes sold during this period were electronic. Despite diminished sales, however, defendants' yearly sales of Gilson pipettes has never fallen below 43,336 pipettes.

After 2001 plaintiffs began to receive complaints from their customers that led them to believe that defendants were refusing to provide potential customers with information about Gilson products or to sell Gilson products. Plaintiffs also discovered information which led them to believe that defendants were marketing their "Pipet-Lite" pipettes as "the new Pipetman" and conducting an organized campaign to disparage Gilson pipettes and to convert Gilson pipette customers into Rainin pipette customers. Consequently, plaintiffs brought the present action.

MEMORANDUM

Presently before the Court are defendants' motion for judgment on the pleadings, Fed. R. Civ. P. 12(c), and cross-motions for summary judgment, Fed. R. Civ. P. 56.

Motions pursuant to Rule 12(c) are reviewed under the same standard as Rule 12(b)(6) motions. See N. Ind. Gun & Outdoor Shows, Inc. v. South Bend, 163 F.3d 449, 452 (7th Cir. 1998). A complaint should be dismissed only if it appears beyond a reasonable doubt that the plaintiffs can prove no set of facts in support of the claim which would entitle them to relief. Conley v. Gibson, 355 U.S. 41, 45-46 (1957). A complaint "must contain either direct or inferential allegations respecting all the material elements necessary to sustain recovery under some viable legal theory." Car Carriers, Inc. v. Ford Motor Co., 745 F. 2d 1101, 1106 (7th Cir. 1984). Plaintiffs need not demonstrate their entitlement to a favorable judgment, only that they have a cognizable claim. See Trevino v. Union Pac. R. Co., 916 F.2d 1230, 1234 (7th Cir. 1990).

Summary judgment is appropriate when, after both parties have the opportunity to submit evidence in support of their respective positions and the Court has reviewed such evidence in the light most favorable to the nonmovant, there remains no genuine issue of material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c).

A fact is material only if it might affect the outcome of the suit under the governing law. Disputes over unnecessary or irrelevant facts will not preclude summary judgment. A factual issue is genuine only if the evidence is such that a reasonable factfinder, applying the appropriate evidentiary standard of proof, could return a verdict for the nonmoving party. Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 254 (l986). Under Rule 56(e) it is the obligation of the nonmoving party to set forth specific facts showing that there is a genuine issue for trial.

Count I: Breach of Contract

Plaintiffs move for summary judgment on Count 1 of their amended complaint. Count I alleges defendants' breach of contract. Specifically, plaintiffs allege defendants' violation of an implied duty to use best efforts to promote the sale of the Gilson products for which they are the exclusive distributor, Wis. Stat. § 402.306, and defendants' violation of the implied duty of good faith and fair dealing, Wis. Stat. § 401.203.

Defendants move for judgment on the pleadings and summary judgment on Count 1 of plaintiffs' amended complaint. They argue that the parties' agreement does not include a duty to use best efforts because the parties otherwise agreed to an objective performance standard. They argue that this objective performance standard also provides the standard by which their compliance with the implied duty of good faith and fair dealing should be measured, Wis. Stat. § 401.102(3). They allege that they have always satisfied this performance standard. They argue also that the parties' course of performance limits any implied obligation of best efforts. Moreover, they argue that plaintiffs' claim should fail because the implied duty of good faith and fair dealing does not provide an "independent" cause of action. Finally, they argue that they have not breached either implied duty and that plaintiffs are estopped or otherwise unable to prove a breach based on conduct in which defendants had engaged prior to the 2001 Assignment Agreement.

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Whether Article 2 of the Uniform Commercial Code Applies?

The parties' agreement is governed by Wisconsin law. Defendants initially question whether Article 2 of the Uniform Commercial Code (UCC), as codified in Chapter 402 of the Wisconsin

Statutes, applies to the parties' agreement. Article 2 applies to transactions in goods. Wis. Stat. § 402.102. The parties' agreement is a "mixed" agreement. It provides for the exchange of goods, services and rights to use intellectual property. Where an agreement is mixed, Wisconsin courts apply the predominant purpose test to determine whether Article 2 is applicable:

> The test for inclusion or exclusion is not whether they are mixed, but, granting that they are mixed, whether their predominant factor, their thrust, their purpose, reasonably stated, is the rendition of service, with goods incidentally involved (e.g., contract with artist for painting) or is a transaction of sale, with labor incidentally involved (e.g., installation of a water heater in a bathroom).

Bonebrake v. Cox, 499 F.2d 951, 960 (8th Cir. 1974) (footnotes omitted), quoted in Van Sistine v. Tollard, 95 Wis. 2d 678, 684, 291 N.W.2d 636, 639 (Ct. App. 1980).

The UCC defines "agreement" as "the bargain of the parties in fact as found in their language or by implication from other circumstances including course of dealing or usage of trade or course of performance." Wis. Stat. § 401.201(3). The predominant purpose of plaintiffs and defendants' bargain-in-fact was to establish defendants as the exclusive distributor of Gilson pipettes in the United States.

Pursuant to the 1972 Agreement, the Gilsons transferred to Rainin the "exclusive and perpetual" right in the United States to use the method described in the '305 patent and technical information relating to processes, invention and methods relating to the manufacture of pipettes under the patent. Neither plaintiffs nor defendants dispute that the purpose of this transfer was to secure capital gains treatment of the payment stream that would result from Rainin's sale of Gilson pipettes.

The transfer of the '305 patent rights from plaintiffs to defendants in the 1972 Agreement was not the predominant purpose for which the transaction was undertaken. The text of the 1972 Agreement, the text of the two 2001 Agreements and the parties' course of performance consistently demonstrate that the transfer of the '305 patent rights was collateral to the predominant purpose of the parties' agreement: the establishment of defendants as the exclusive distributor of Gilson-brand pipettes. For thirty years, plaintiffs manufactured Gilson pipettes under the parties' agreement, which defendants distributed. None of the written agreements permits defendants to place the "Gilson" or "Pipetman" trademark on pipettes that they might manufacture. Consequently, if defendants wish to sell "Gilson" pipettes under the parties' agreement, then plaintiffs must supply them. This was the predominant purpose for which the parties entered into their agreement. Plaintiffs contributed "Gilson" pipettes. Defendants contributed their promotional efforts. Article 2 applies to such distributorship agreements. The predominant purpose of such agreements is the transaction of the sale of goods. <u>Am. Suzuki</u>

Motor Corp. v. Bill Kummer, Inc., 65 F.3d 1381, 1385-86 (7th Cir. 1995).

Best Efforts, Good Faith and Fair Dealing

Under Article 2 of the UCC, an exclusive dealing agreement "imposes unless otherwise agreed an obligation by the seller to use best efforts to supply the goods and by the buyer to use best efforts to promote their sale." Wis. Stat. § 402.306. The effect of this provision is expressly variable by agreement of the parties. Defendants argue that the parties otherwise agreed to disclaim this obligation when they agreed to an express "performance standard" in the 2001 Assignment Agreement.

Neither party disputes that the 1972 Agreement included an obligation to use best efforts. The agreement made Rainin the exclusive dealer of Gilson Pipetman pipettes in the United States. In exchange, Gilson received a per-pipette payment from Rainin. This was the only remuneration that Gilson received from Rainin. As a consequence of this exclusive dealer arrangement, Gilson was obligated to use best efforts to supply the pipettes and Rainin was obligated to use best efforts to promote their sale. Wis. Stat. § 402.306(2). The parties' course of performance is consistent with this understanding. Neither party disputes that Gilson used best efforts to supply its pipettes and that Rainin used best efforts to promote their sale for over twenty-five years. As a result of their efforts, the Gilson Pipetman pipette became the industry standard and remains so today.

Under the 2001 Assignment Agreement, defendants remain the exclusive dealer of Gilson pipettes in the United States. Defendants argue, however, that the parties disclaimed their obligation to use best efforts by establishing an express "performance standard." Specifically, defendants point to the following clause within the agreement:

> Provided that Mettler remains the exclusive distributor of all Gilson volume adjustable mechanical pipettes, <u>if annual sales of PRODUCTS by Mettler in the U.S. in any calendar year are less than one half the unit sales of Current Pipetman Products in calendar year 2000, then the Gilsons shall have the right by written notice to Mettler to convert Mettler's rights under the [1972 Agreement] from exclusive to nonexclusive</u>; provided, however, that such exclusivity shall not lapse in the event such volume limitations are not achieved as a result of significant quality problems, Acts of God, significant logistical problems, or similar events causing a significant disruption in supply.

(emphasis added.)

The implied duty of best efforts is a gap-filling provision. Defendants argue that this clause displaces their obligation to use best efforts because it fills the gap for which the duty would otherwise be supplied. Specifically, defendants argue that this clause provides the quantity of pipettes that they must sell each year in consideration of the right to operate as plaintiffs' exclusive distributor: one half the unit sales of Current Pipetman Products in calendar year 2000 or 43,336 pipettes. Plaintiffs disagree. They argue that this clause permits them to convert defendants' distributorship rights from exclusive to nonexclusive if defendants are unable to sell 43,336 Gilson pipettes per year despite their best efforts.

At its heart, the parties' dispute concerns the degree of discretion that the agreement permits defendants to exercise in determining the extent of their performance. Plaintiffs construe the disputed clause to give defendants little discretion to determine the extent of their performance. Plaintiffs argue that defendants must use reasonable efforts and due diligence as well as good faith in the promotion and sale of their product. The market, not defendants, will then determine the quantity sold and plaintiffs' resulting remuneration. To the contrary, defendants' interpretation suggests that they believe themselves to have complete discretion to determine the extent of their performance. If they decide to sell fewer than 43,336 Gilson pipettes, then they permit plaintiffs to convert their distributorship rights from exclusive to nonexclusive. If they decide to sell more than 43,336 Gilson pipettes, then they prevent plaintiffs from converting their distributorship rights to nonexclusive.

This dispute mirrors that resolved by Justice Cardozo in the paradigm best-efforts case: <u>Wood v. Lucy, Lady Duff-Gordan</u>, 118 N.E. 214 (N.Y. 1917). Lady Duff-Gordon Lucy was a well-known fashion designer who gave a licensee the exclusive right to place her endorsements on the designs of others and to sell and license her designs. In return, she was to receive one-half of "all profits and revenues" that he might make. The licensee sued her for breach of contract alleging that she had placed her endorsements on goods without his knowledge. She responded that the parties' agreement was unenforceable because it lacked mutuality of obligation. While the agreement expressly disabled her from placing her endorsements on goods and from granting that right to another, it did not expressly obligate him to do anything. Writing for the New York Court of Appeals, Justice Cardozo implied in the parties' agreement an obligation on the licensee's part to use reasonable efforts to place her endorsements and market her designs. This obligation supplied the consideration. Accordingly, the Court found the parties' agreement to be valid and enforceable. Lucy, Lady Duff-Gordan, 118 N.E. at 215.

Like the defendant in Lucy, Lady Duff-Gordan, defendants suggest that one party to the agreement has been given unfettered discretion to determine the extent of its performance. On the one hand, defendants disclaim any obligation to use best efforts or to perform in good faith. Their performance, they argue, must be judged by whether they sold 43,336 Gilson pipettes each year. On the other hand, they do not argue that they were obligated to sell 43,336 units per year or that their failure to do so would constitute a breach of contract. Indeed, the parties' written agreement contains no suggestion that the occurrence of the condition stated in the disputed clause would constitute a breach of the agreement.

A common type of promise that is too indefinite to be enforceable is that where the promisor retains unlimited discretion to decide later the nature and extent of its performance. Restatement (Second) of Contracts §§ 34, cmt. b, 77, illus. 1 (1979); 1 Samuel Williston, A Treatise on the Law of Contracts § 4:24 (Richard A. Lord ed., 4th ed. 1990). Such an "agreement" may not only fail to be enforceable, it may fail to be an agreement at all. If the parties' "agreement" makes performance entirely optional with the "promisor," then there is no agreement. Restatement (Second) of Contracts §§ 2, cmt. e, 77, cmt. a.

As Justice Cardozo showed in Lucy, Lady Duff-Gordon, however, courts are hesitant to interpret agreements to place one party at the mercy of the other, especially when to do so would render the parties' agreement invalid, unenforceable or both. 118 N.E. at 214. Wherever possible, the Court will interpret the parties' agreement to be valid and enforceable. Variance, Inc. v. Losinske, 71 Wis. 2d 31, 36-37, 237 N.W.2d 22, 24 (1976). The UCC provides several gap-filling provisions that permit courts to supply missing terms and render agreements valid and enforceable. One such provision is § 402.306(2), which supplies the exclusive dealer's obligation where none is otherwise expressly stated. Wis. Stat. §

402.306(2), cmt. 5. Section 402.306(2) fetters the exclusive dealer's discretion and thereby provides the requisite obligation to render the agreement valid and enforceable. See also Restatement (Second) of Contracts § 77, cmt. d.

The disputed clause in the parties' 2001 Assignment Agreement provides that plaintiffs shall have the right by written notice to defendants to convert defendants' rights under the agreement from exclusive to nonexclusive if their annual sales are less than 43,336 Gilson pipettes. The occurrence of this condition does not, as such, signal a breach of the parties' agreement. Nor does this clause obligate defendants to sell a certain number of pipettes or pay a certain minimum royalty. It guarantees no performance on the part of defendants. Consequently, the parties' written agreement remains silent as to defendants' obligation. In this silence, Wis. Stat. § 402.306(2) continues to supply an obligation to use best efforts.

In this silence, the UCC also continues to supply an obligation to perform in good faith. Wis. Stat. §§ 401.203, 402.306(2). In a transaction between merchants governed by Article 2, "good faith" "means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade." Wis. Stat. § 402.103(1)(b). Unlike the obligation to exercise best efforts, the obligation to perform in good faith may not be disclaimed by agreement. Wis. Stat. § 401.102(3). The parties may agree to determine the standard by which the performance of this obligation is to be measured, id., but defendants' argument that the parties here intended to set such a standard is unpersuasive. It would be manifestly unreasonable to say that a provision of the agreement which does not obligate a party to act or refrain from acting provides the measure by which that party's good faith is to be judged. Were this clause to provide the sole measure of defendants' good faith, then defendants would not be obligated to act in good faith. In effect, defendants' interpretation disclaims the duty of good faith contrary to Wis. Stat. § 401.102(3), which expressly precludes such a result.

Defendants are correct that the implied duty of good faith and fair dealing does not provide an "independent" cause of action. Wis. Stat. § 401.203 cmt.; Hauer v. Union State Bank, 192 Wis. 2d 576, 597, 532 N.W.2d 456, 464 (Ct. App. 1995). A failure to perform a specific obligation under the agreement in good faith constitutes not an independent breach but a breach of that obligation. Wis. Stat. § 401.203 cmt. Plaintiffs allege defendants' failure to perform in good faith their obligation to use best efforts to promote plaintiffs' product. Under the parties' exclusive dealing arrangement, defendants' exercise of discretion in the promotion and sale of plaintiffs' product is fettered not only by the obligation that they use reasonable diligence but also by the obligation that they perform in good faith. Wis. Stat. § 2-306(2), cmt. 5. Consequently, defendants' motion for judgment on the pleadings as to Count 1 of plaintiffs' amended complaint must be denied.

There is no dispute that the parties' agreement permits defendants to manufacture pipettes which compete with Gilson pipettes. Nevertheless, defendants' privilege to compete with plaintiffs is not absolute. The means that defendants may employ to compete with plaintiffs are limited by defendants' obligation to use reasonable efforts and due diligence as well as good faith in the promotion and sale of plaintiffs' pipettes. Although defendants have a general right to promote the sale of a competing brand of pipettes and thereby lessen plaintiffs' share of the market, there will be a point where defendants' methods are so manifestly harmful to plaintiffs as to justify the finding that defendants have breached their obligation to plaintiffs. See, e.g., Bloor v. Falstaff Brewing Corp., 601 F.2d 609, 614-15 (2d Cir. 1979); Joyce Beverages v. R. Royal Crown Cola Co., 555 F. Supp. 271, 275 (S.D.N.Y. 1983); Van Valkenburgh, Nooger & Neville, Inc. v. Hayden Pub. Co., 281 N.E.2d 142, 145 (N.Y. 1972).

The application of the best efforts standard to the particular circumstances of this case presents a question of fact ill-suited for resolution on summary judgment. Plaintiffs allege, for example, that defendants are engaged in an organized campaign to convert Gilson customers to Rainin customers through means that include the promotion of the Ranin pipettes as an "upgraded version of the Pipetman," the disparagement of Gilson pipettes as "long in the tooth," the training of the Rainin sales force to sell Gilson pipettes "only as a last resort," the incentivization of the Rainin sales force to promote Rainin pipettes and disparage Gilson pipettes including the use of disparate sales commissions and awards, and the disparate use of special offers to customers including discount coupons, trade-in programs, volume incentives and calibration services. Plaintiffs' evidence consists in large part of conversations by telephone and at trade shows between members of defendants' sales force and potential customers.

Defendants argue estoppel and suggest that the parties' course of performance prior to the 2001 agreements precludes plaintiffs from now challenging defendants' promotion of competing product lines, but defendants have not satisfied their burden to prove that plaintiffs were aware of those methods which they now challenge prior to the 2001 Agreements. Defendants also dispute that they are waging any organized campaign against plaintiffs and dismiss plaintiffs' evidence as at best a collection of isolated incidents that do not amount to a breach.

The facts thus far presented when viewed in a light most favorable to either party are sufficient to permit a reasonable factfinder to find in favor of that party. Accordingly, both parties' motions for summary judgment will be denied as they relate to Count 1 of plaintiffs' amended complaint.

Lanham Act

Defendants move for judgment on the pleadings and summary judgment on Count 3 of plaintiffs' amended complaint. Count 3 alleges defendants' violation of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A) & (B).

Plaintiffs first allege a false or deceptive advertising claim, 15 U.S.C. § 1125(a)(1)(B).

> To establish a claim under the false or deceptive advertising prong of § 43(a) of the Lanham Act, a plaintiff must prove: (1) a false statement of fact by the defendant in a commercial advertisement about its own or another's product; (2) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (3) the deception is material, in that it is likely to influence the purchasing decision; (4) the defendant caused its false statement to enter interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result of the false statement, either by direct diversion of sales from itself to defendant or by a loss of goodwill associated with its products.

Hot Wax, Inc. v. Turtle Wax, Inc., 191 F.3d 813, 819 (7th Cir. 1999).

In response to defendants' motion for summary judgment, plaintiffs have abandoned all but the following allegations as the basis for their Lanham Act false advertising claim:

- At a trade show in Chicago, a Rainin representative introduced the Rainin LTS series pipette to Gilson employee Dennis Claspell as "the new Pipetman."
- In July of 2003, Rich Gray, a Rainin salesperson e-mailed his colleagues: "It has been my experience with academic accounts, that selling the Pipette Lite as an upgraded version of the Pipetman, rather than an ergonomic pipette, works better. I use that tool to generate interest . . . ."
- A Rainin sales representative described the Pipette Lite as the "newer model" of Pipetman to customers. One call center report states: "Alice called for a quote on Pipetman®. I asked to see if I could come by and show her the newer model, the Pipet-lite . . . ."

Defendants argue that these alleged misrepresentations do not constitute "commercial advertising or promotion."

That the communication be "commercial advertising or promotion" is an essential element of any false advertising claim under 15 U.S.C. § 1125(a)(1)(B). First Health Group Corp. v. BCE Emergis Corp., 269 F.3d 800, 803 (7th Cir. 2001). The Seventh Circuit has defined "commercial advertising or promotion" as follows:

> Advertising is a form of promotion to anonymous recipients, as distinguished from face-to-face communication. In normal usage, an advertisement read by millions (or even thousands in a trade magazine) is

> advertising, while a person-to-person pitch by an account executive is not. So we have held in a series of disputes that require a definition of "advertising injury" under insurance policies. . . . Advertising is a subset of persuasion and refers to dissemination of prefabricated promotional material.

Id. at 803-04 (citations and internal quotation marks omitted).

By this definition, the communications on which plaintiffs rely are not "commercial advertising or promotion." Each communication was in the form of a person-to-person pitch, not a dissemination of prefabricated promotional material to anonymous recipients. Accordingly, defendants' motion for summary judgment on plaintiffs' false or deceptive advertising claim, 15 U.S.C. § 1125(a)(1)(B), will be granted.

Plaintiffs also allege that defendants have violated the false designation prong of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A). It provides in relevant part:

> (1) Any person who, on or in connection with any goods, . . . uses in commerce . . . any false designation of origin . . . which -
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive . . . as to the origin, sponsorship, or approval of his or her goods . . . shall be liable in a civil action by any such person who believes that he or she is likely to be damaged by such act.

Plaintiffs must prove three elements:

> (1) that the defendant used a false designation of origin or false description or representation in connection with goods or services; (2) that such goods or services entered interstate commerce; and (3) that the plaintiff is a person who believes he is likely to be damaged as a result of the misrepresentation.

Kennedy v. Nat'l Juvenile Det. Ass'n, 187 F.3d 690, 695-96 (7th Cir. 1999) (citing Web Printing Controls Co., Inc. v. Oxy-Dry Corp., 906 F.2d 1202, 1204 (7th Cir. 1990)).

Defendants argue that plaintiffs have no evidence that defendants sold or attempted to sell Rainin pipettes under the Gilson trademark. In response, plaintiffs propose the following facts:

- Ranin prominently displays the Pipetman trademark and the Rainin name in large type in its catalogs, with the Gilson trademark nowhere to be found on the page;
- Rainin uses the Pipetman mark in Rainin catalogs, particularly on the covers, without the Gilson trademark on the same page;
- Rainin places the Pipetman and Rainin marks proximate to each other in bold type in Rainin catalogs with the Gilson name included in small type, generally in the middle of text some distance away from the Pipetman name;
- Rainin advertises the Pipetman without the Gilson mark on Rainin web pages;
- At a trade show in Chicago, a Rainin representative introduced the Rainin LTS series pipette to Gilson employee Dennis Claspell as "the new Pipetman."
- In July of 2003, Rich Gray, a Rainin salesperson e-mailed his colleagues: "It has been my experience with academic

accounts, that selling the Pipette Lite as an upgraded version of the Pipetman, rather than an ergonomic pipette, works better. I use that tool to generate interest . . . ."

- A Rainin sales representative described the Pipette Lite as the "newer model" of Pipetman to customers. One call center report states: "Alice called for a quote on Pipetman®. I asked to see if I could come by and show her the newer model, the Pipet-lite . . . ."

Plaintiffs' first four concerns are without merit. Plaintiffs expressly licenced defendants to display Pipetman pipettes in Ranin advertising materials. Rainin is the exclusive distributor of Pipetman pipettes. Consequently, some association of the Rainin name with the Pipetman name is necessary to inform the public that Rainin, not Gilson, is the company to which their Pipetman purchase requests should be directed. Having reviewed the disputed catalogs and advertising materials, the Court concludes that no reasonable juror could find a false designation of origin in any of these materials.

Defendants have little to say regarding plaintiffs' remaining three concerns. This is understandable given the fluid nature of plaintiffs' claim. Defendants argue that plaintiffs have failed to offer sufficient evidence of "likelihood of confusion." However, this argument is raised for the first time in their reply brief.

Plaintiffs have not had a meaningful opportunity to respond. Consequently, this argument will not be considered for the purposes of defendants' motion. Defendants' motion for summary judgment on plaintiffs' false designation claim, 15 U.S.C. § 1125(a)(1)(B), will be denied.

Wis. Stat. § 100.18/815 Ill. Comp. Stat. 510/2

Defendants move for judgment on the pleadings and summary judgment on Count 2 of plaintiffs' amended complaint. Count 2 alleges defendants' violation of Wis. Stat. § 100.18(1), which provides in relevant part:

> No person . . . with intent to sell . . . shall make, publish, disseminate, circulate, or place before the public, or cause, directly or indirectly, to be made, published, disseminated, circulated or placed before the public, in this state, in a newspaper, magazine, or other publication . . . or in any other way similar or dissimilar to the foregoing, an advertisement, announcement, statement or representation of any kind to the public relating to such purchase, sale, hire, use or lease . . . which advertisement, announcement, statement or representation contains any assertion, representation, or statement of fact which is untrue, deceptive or misleading.

However convoluted the language of the statute one thing is clear: in order for liability to attach there must be some statement made in Wisconsin. It is undisputed that the alleged misrepresentations took place in Illinois, not Wisconsin. Consequently, plaintiffs seek amendment to conform to the evidence and plead a violation of the equivalent Illinois statute: the

Illinois Uniform Deceptive Trade Practices Act, 815 Ill. Comp. Stat. 510/2. The parties agree that the legal inquiry is the same under both the Illinois Uniform Deceptive Trade Practices Act and the Lanham Act. SB Designs v. Reebok Intern., Ltd., 338 F. Supp. 2d 904, 914 (N.D. Ill. 2004) (citing Gimix, Inc. v. JS & A Group, Inc., 699 F.2d 901, 908 (7th Cir. 1983)). Amendment would not prejudice defendants and would promote a complete resolution of the parties' dispute. Accordingly, leave will be granted pursuant to Rule 15 of the Federal Rules of Civil Procedure. Because the legal inquiry is the same, defendants' motions for judgment on the pleadings and summary judgment on plaintiffs' state law false designation claim will be denied in tandem with their motions for judgment on the pleadings and summary judgment on plaintiffs' Lanham Act false designation claim.

Declaratory Relief

Count 4 of plaintiffs' amended complaint seeks a declaration that the parties' agreement is void and unenforceable because it is an unreasonable restraint on trade and because it constitutes patent misuse. Defendants move for judgment on the pleadings and summary judgment on each of these issues. Plaintiffs move for summary judgment on their patent misuse claim.

Analogizing to employment and sale-of-business contracts, plaintiffs argue that the parties' agreement is an unreasonable restraint of trade under Wisconsin law. This argument is unpersuasive. Wisconsin law allows "a much greater scope of restraint in contracts between vendor and vendee than between employer and employee." IDX Systems Corp. v. Epic Systems Corp., 285 F.3d 581, 585 (7th 2002) (construing Fullerton Lumber Co. v. Torborg, 270 Wis. 133, 139, 70 N.W.2d 585, 588 (1955)). Plaintiffs have failed identify any Wisconsin case in which a similar exclusive distributorship agreement has been held to be an unenforceable restrictive covenant, nor do they make a persuasive argument that this Court should be the first to so hold.

Plaintiffs' federal antitrust claim relies on its assertion that the parties' agreement is a horizontal restraint. Whether a restraint is horizontal depends upon whether it is the product of a horizontal agreement, not whether its effects are horizontal. Bus. Elecs. Corp. v. Sharp Elecs. Corp., 485 U.S. 717, 730 n.4 (1988). The parties agreement is a vertical agreement. It establishes defendants as the exclusive distributor of Gilson pipettes in the United States. With this determination, plaintiffs' federal antitrust argument fails.

Plaintiffs also argue that the parties' agreement is void and unenforceable under the doctrine of patent misuse. The predominant purpose of the parties' 1972 Agreement was to establish Rainin as the exclusive distributor of Gilson pipettes. As previously discussed, however, the parties structured their written agreement as a "Capital Gains Licencing Agreement" in which Gilson licenced its '305 patent to Rainin in order to achieve capital gains treatment of the resulting payment stream from Rainin to Gilson. Plaintiffs now seek to use this arrangement to argue that the parties' agreement extended the payment of patent royalties beyond the expiration of the patent. Such an extension would implicate the patent misuse doctrine. See, e.g., Brulotte v. Thys Co., 379 U.S. 29 (1964); Scheiber v. Dolby Labs., Inc., 293 F.3d 1014 (7th Cir. 2002). The '305 patent expired in 1991. Plaintiffs' argument, however, is unpersuasive.

In substance, Rainin paid Gilson for the right to be the exclusive distributor of the "Gilson" and "Pipetman" brand pipettes, which Gilson, not Rainin, manufactured using the '305 patent. In 1991 the '305 patent expired. The only remaining restriction on Rainin's ability to manufacture and sell pipettes substantially similar to the Gilson Pipetman pipettes was its inability to market them under the Gilson and Pipetman names. This restriction was not inconsequential. The Gilson name by then had acquired considerable value as the dominant brand in the United States pipette market. Accordingly, Gilson continued to manufacture its Pipetman pipettes and Rainin continued to pay for the exclusive right to distribute them. The parties continued in this manner for a decade. The parties then entered into the 2001 Agreements.

The principle underlying the patent misuse doctrine is that the leverage of the patent monopoly cannot lawfully be used to negotiate royalty payments beyond the life of the monopoly. Aronson v. Quick Point Pencil Co., 440 U.S. 257, 265 (1979). In 2001, Gilson had no patent, no monopoly, and no resulting leverage to negotiate royalty payments beyond the life of the monopoly. The parties' 2001 Agreements can only reasonably be read to confer existing rights and assign existing obligations. Plaintiffs had the valuable "Gilson" and "Pipetman" trademarks. Defendants had the distribution infrastructure. These items, not the '305 patent, are the subjects specifically mentioned in the 2001 Agreements. These items, not any residual rights relating to the '305 patent, were the concerns bargained for and given in exchange in the 2001 Agreements. Although the 2001 Agreements speak in general terms of a "royalty" being paid "pursuant to the [1972] Agreement," neither party could reasonably have understood this "royalty" payment to be in consideration for Rainin's purchase of the '305 patent rights.

Defendants' motion for summary judgment on plaintiffs' unreasonable restraint of trade and patent misuse claims will be granted. Plaintiffs' cross-motion on its patent misuse claim will be denied.

Count 4 of plaintiffs' amended complaint also seeks declarations that they have the right to sell, directly or through third parties, their spare parts in the United States and that the Agreement does not limit their right to sell any product in Wisconsin.

Spare parts are not mentioned among the products covered by the parties agreement. Accordingly, the agreement does not prohibit plaintiffs from selling, directly or through third parties, their spare parts in the United States. Plaintiffs' motion for summary judgment will be granted as it relates to this determination.

The parties' written agreements are silent as to any special exception allowing plaintiffs to sell their products in Wisconsin. Apparently, however, there is an oral understanding between the parties on this issue. The Court is unable to determine the content of this understanding on summary judgment. Consequently, both parties' motions will be denied as they relate to this determination.

Finally, defendants' seek summary judgment on their counterclaim that plaintiffs have breached their obligations to provide technical information and negotiate a licensing agreement in good faith for defendants' use of the Pipetman trademark. As a preliminary matter, plaintiffs move to strike defendants' counterclaim arguing that defendants have failed to provide a damages calculation and have delayed in providing certain other disclosures. The Court does not believe dismissal of the counterclaim to be an appropriate sanction for defendants' conduct. Defendants will not be permitted to use at trial in support of their counterclaim those items, if any, that they fail to produce in discovery. If they fail to produce evidence of damages, then they will be unable to prove damages at trial. The resolution of defendants' counterclaim will first require a determination as to whether defendants have materially breached the agreement so as to excuse plaintiffs' continuing performance. This dispute cannot be resolved on summary judgment. Defendants' motion for summary judgment will be denied as it relates to their counterclaim.

ORDER

IT IS ORDERED that defendants' motion for judgment on the pleadings is DENIED.

IT IS FURTHER ORDERED that defendants' motion for summary judgment is GRANTED insofar as it relates to plaintiffs' claims for false or deceptive advertising, state and federal unreasonable restraint on trade and patent misuse. Defendants' motion is in all other respects DENIED.

IT IS FURTHER ORDERED that plaintiffs' motion to strike is DENIED.

IT IS FURTHER ORDERED that plaintiffs' motion for summary judgment is GRANTED insofar as it seeks a declaration that the agreement does not prohibit plaintiffs from selling, directly or through third parties, their spare parts in the United States. Plaintiffs' motion is in all other respects DENIED.

Entered this 25th day of April, 2005.

BY THE COURT:

/s/

JOHN C. SHABAZ
District Judge